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R 311205Z AUG 06
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC 1183
INFO RUCNCIS/CIS COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 1718
RUEHIT/AMCONSUL ISTANBUL 0463
RUCPDO/DEPT OF COMMERCE WASHDC
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SIPDIS

SENSITIVE

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [ENRG](#) [EPET](#) [PREL](#) [AJ](#) [IR](#) [RU](#)

SUBJECT: AID COUNTRY COORDINATOR'S INTRODUCTORY CALL AT
THE STATE OIL FUND OF AZERBAIJAN REPUBLIC

REF: BAKU 1274

SENSITIVE BUT UNLCASSIFIED - PLEASE HANDLE ACCORDINGLY.

¶1. (SBU) USAID COUNTRY COORDINATOR PAID AN INTRODUCTORY CALL ON THE EXECUTIVE DIRECTOR OF THE STATE OIL FUND (SOFAZ), SHAHMAR MOVSUMOV, AUGUST 7. MOVSUMOV OUTLINED THE PLANNED INTERNAL REORGANIZATION OF SOFAZ BASED ON A STRATEGIC PLAN THAT WOULD BE COMPLETED BY MID-FALL. HE ALSO DISCUSSED THE REVENUES THAT WOULD FLOW INTO SOFAZ AND HOW THESE FUNDS WOULD BE USED THIS YEAR.

¶2. (SBU) MOVSUMOV STATED THAT SOFAZ WAS DEVELOPING A STRATEGIC PLAN FOR THE NEXT TWO YEARS. THE STRATEGIC PLAN WOULD BE FINISHED BY MID-FALL AND WOULD REVEAL THOSE AREAS IN WHICH SOFAZ NEEDED TECHNICAL ASSISTANCE. USAID PLANS TO PROVIDE TECHNICAL ASSISTANCE TO HELP SOFAZ DEVELOP A STAFFING AND COMPENSATION PLAN THAT SOFAZ WOULD HAVE THE GOAJ APPROVE (IT WOULD BRING TO THE GOAJ FOR FUNDING - THIS IS UNCLEAR TO ME; SOFAZ WOULD SEEK GOAJ FUNDING FOR A NEW STAFFING AND COMPENSATION PLAN?). MOVSUMOV COMPLAINED THAT ALTHOUGH SOFAZ WAS TIED TO THE CIVIL SERVICE WAGE SCALE, THE SKILLS OF HIS STAFF WERE IN DEMAND NATIONALLY AND INTERNATIONALLY AND HE WAS HAVING GREAT DIFFICULTY ATTRACTING AND RETAINING QUALIFIED STAFF. THROUGH AN ONGOING USTDA ASSISTANCE PROJECT, SOFAZ WILL RECEIVE TECHNICAL ASSISTANCE TO IDENTIFY ITS IT REQUIREMENTS.

¶3. (SBU) MOVSUMOV TOLD TAYLOR THAT THE ECONOMETRIC FIRM, OXFORD ECONOMIC FORECASTING, FUNDED BY BP WAS DEVELOPING A MACROECONOMIC FORECASTING MODEL THAT WOULD MODEL THE EFFECT OF OIL REVENUES ON THE ECONOMY. THE MODEL SHOULD BE READY IN SEPTEMBER. (FULL REPORT ON SOFAZ'S NEW ECONOMIC MODELING UNIT IN REFTEL.)

¶4. (SBU) MOVSUMOV EXPLAINED THAT SOFAZ RECEIVES MONEY FROM THE STATE OIL COMPANY OF AZERBAIJAN BASED ON A PERCENTAGE OF THE REVENUES ON OIL IT EXTRACTS OVER AN AMOUNT SET YEARLY BY PRESIDENTIAL DECREE. THIS YEAR THE AMOUNT IS USD 40 A BARREL. IT ALSO RECEIVES ALL THE GOAJ'S SHARE OF EARNINGS UNDER ITS PRODUCTION SHARING AGREEMENTS. IN TOTAL, HE EXPECTED REVENUES OF USD 150 TO 200 BILLION WITH USD 1 BILLION THIS YEAR, USD 2 BILLION NEXT YEAR, USD 8.5 BILLION IN 2008, AND USD 17.5 BILLION IN 2009. MOVSUMOV EXPECTED REVENUE TO LEVEL OUT IN 2012-2013 AND TO BE FLAT FOR A COUPLE OF YEARS BEFORE BEGINNING TO DECLINE. HE ADDED THAT THE AMOUNT THAT SOFAZ WOULD RECEIVE THIS YEAR WAS USD 1 BILLION AND THAT ITS DISBURSEMENT WOULD ALSO BE USD 1 BILLION, LEAVING SOFAZ WITH USD 1.6 BILLION IN ASSETS.

¶5. (SBU) MOVSUMOV STATED THAT THE AMOUNT THAT SOFAZ WAS TO TRANSFER TO THE BUDGET ON AN ANNUAL BASIS WAS SET ANNUALLY BY PRESIDENTIAL DECREE. IN 2006, THE AMOUNT WAS 800 MILLION MANATS (APPROXIMATELY USD 880 MILLION) AND SOFAZ HAD ANTICIPATED DRAWING DOWN ON THE STABILIZATION FUND FOR THE DIFFERENCE, BUT THAT HIGHER THAN ANTICIPATED EARNINGS (THE RESULT OF A USD 70 A BARREL PRICE) MEANT THAT THERE WAS NO NEED.

¶6. (SBU) MOVSUMOV SAID THAT THE ANNUAL PRESIDENTIAL DECREE ALSO ORDERED SPECIFIC CAPITAL EXPENDITURES. IN 2006, THESE PROJECTS TOTALED 400 MILLION MANATS, WITH THE BALANCE OF 600 MILLION MANATS BEING TRANSFERRED FOR BUDGET SUPPORT. THE EXPENDITURES AUTHORIZED THROUGH SOFAZ WERE FOR TWO PROJECTS TO BRING WATER TO BAKU FROM THE CAUCASUS MOUNTAINS, IDP HOUSING, BTC FEES, AND FUNDING FOR THE STATE'S EQUITY INVESTMENT FUND. THE MONEY IS TRANSFERRED TO COMMITTEES WITHIN VARIOUS MINISTRIES THAT ARE CHARGED WITH ADMINISTERING THE PROJECTS.

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1The funds would come from SOFAZ which pays the operational expenses of SOFAZ but permission to be released from the constraints of the Civil Service wage scale would have to come from the GOAJ